



COALITION FOR SECURE RETIREMENT - MICHIGAN

TESTIMONY IN SUPPORT OF HB 4190

Ellen Hoekstra, Capitol Services, Inc.

April 18, 2013

The Coalition for Secure Retirement (CSR), a coalition of school and state employee and retiree organizations, supports HB 4190, legislation to update the base upon which school districts pay for their share of retirement costs for their employees. PA 300 of 2012 made a number of changes that increased what employees had to pay into MPSERS and also reduced benefits. At the time these changes were being considered, CSR also recommended changing the base on which employers make their payments. That particular change was not incorporated into SB 1040 before it was enacted, and CSR again recommended the change within the input it made into the report to Segal and Company, which put together the PA 300 MPSERS study required under PA 300 on a number of issues.

CSR points out that, according to the House Fiscal Agency, the decline in statewide pupil enrollment has been the second largest factor "in the increase of employer contribution rates for unfunded accrued liabilities (Analysis of SB 620, 9/18/12)". From 1996-7 to 2003-4, the proportion of active to retired members declined from 72.6 % to 68.6%, even though during that same period, local district pupil membership increased from 1,634,074 to 1,640,929. Since that time, pupil membership has declined, with an estimated local district membership of 1,412,500 as of September, 2012. It is our understanding that ORS estimated last year that 5% of the increase in employer pension contributions and 2% of the increase in retiree health care contributions are due to stranded costs. For this reason, CSR supports shifting UAL costs from the payroll base established in the 1940's to school districts' current operating expenditures (COE) to assure that UAL related to previously earned benefits remains with the employer whose operation resulted in the cost.

As the Segal study of MPSERS dated November 15, 2012 states, the "decline in active member population has not been uniform across all school employers", with some employers reducing the number of employees eligible to participate in MSPERS while others have not done so. Consequently, employers whose active members have increased, remained stable or declined at a slower pace than others pay a higher proportion of the amortization of the UAL component of the contribution. The Segal report points out that a major portion of the UAL (66%) is attributable to retirees and their beneficiaries, not to active members.

Additionally, we did want to raise one issue about what should be included in COE. It is important that transfers to other governmental entities be included in COE's so that we are not creating the MPSERS equivalent of "off shore tax havens". This is an issue we have raised with the bill sponsor and have received some assurances that they are, but we wanted to make the committee aware of this ongoing conversation.

Thank you for this opportunity to testify and I would be pleased to answer any questions.